



# PUBLIC MEETING

## **Utah Committee of Consumer Services**

Utah Department of Commerce  
September 12, 2007



# Welcome & Business

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# Case Updates

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Michele Beck



## CASE UPDATES

# Questar's Conservation Enabling Tariff

Team: Dan, Eric, Michele, Paul, David Dismukes

- Prefiled testimony complete
- Active parties this round:
  - In favor: Questar, DPU, Utah Clean Energy
  - Opposed: CCS, UAE, SLCAP
- Hearings Next Week: September 18 – 20
  - Public Witness Day:  
Tuesday, September 18, 4:30



## CASE UPDATES

# 801 Area Code Overlay or Split

Team: Eric, Paul

- Commission ordered that the new area code be implemented via overlay methodology
- Consistent with the position of CCS, DPU, and carriers

## CASE UPDATES

# Rocky Mountain Power IRP

Team: Michele, Dan, Cheryl, Paul, Nancy Kelly

- Comments filed August 31
  - CCS, DPU, UAE, Western Resource Advocates (jointly with Utah Clean Energy and Sierra Club)
  - Letters sent from: Park City, Salt Lake City and Salt Lake County mayors; Physicians for a Healthy Environment and Moms for Clean Air; and International Tenant Representative Alliance
- CCS comments addressed concerns with the existing plan, modeling issues, resource adequacy, and the overall process
- Next Steps:
  - Likely to be a technical conference
  - Some parties contemplate a hearing



## CASE UPDATES

# Questar Gas IRP

Team: Eric, Dan, Michele, Paul

- Comments filed September 4
  - Delayed to allow full consideration of process issues in comments
  - Comments filed by: Questar, DPU, CCS
- CCS comments included:
  - Concerns with the current IRP
  - Recommendation that acknowledgements not be given unless/until more meaningful
  - Recommendations that guidelines be changed to:
    - Incorporate short term detail in Pass-Through Filing
    - Re-establish long term (possibly 3 year) focus in IRP

## CASE UPDATES

## Bresnan Broadband of Utah

Team: Eric, Paul

- Background
  - Bresnan is a cable TV provider in Vernal
  - Bresnan petitioned to also provide phone service
  - UBTA and URTA opposed
  - DPU and CCS supported
- CCS Position
  - Supported state policy of telecom competition
  - Vernal exchange meets the requirements for competition, shouldn't be treated differently than SLC
  - Impact on USF is balanced with benefits of competition
- Hearings complete, ruling pending





## CASE UPDATES

### Upcoming Rate Cases

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- Rocky Mountain Power is expected to file its general rate case on December 11, 2007
- Questar Corporation indicated in a conference call with investor analysts that Questar Gas Company would likely file a general rate case “later this year or early next year”



# C02 Plant Issues: New Developments & Cost Recovery Financial Report

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Eric Orton  
Ronnie Drake



## C02 PLANT ISSUES

# New Developments

- Field production
  - Ferrin (C02) field production is going down while Piceance and Uintah field productions are going up
- Recent pipeline enhancements & expansions
- New interchangeability studies

## C02 PLANT ISSUES

### End Result.....

- On August 28, 2007, Questar Gas Co. announced they will no longer use the C02 plant.

OBITUARY: Questar Gas CO2 Plant

Born June 1, 1998 – Died February 1, 2008





## CO2 COST RECOVERY REPORT

# CCS Final Review of CO2 Plant Stipulation

- To assure compliance with the 2006 Gas Cost Management Stipulation, CCS staff performed a review and analysis of non-fuel costs, fuel gas charge, and third party revenue sharing.
- Based on the data submitted by QGC, recovery costs appear to be in compliance with the guidelines of the stipulation.



# Consultant Updates

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Chris Keyser



## CONSULTANT UPDATES

### Follow-up on Previous Direction

- Staff submitted a Sole Source Request for Tom Norris to analyze pipeline policies, gas interchangeability issues, etc. Request was approved by State Purchasing and a contract for \$66,200 is in process.
- Staff pursued a renegotiated contract with Nancy Kelly. An amendment to extend the contract through 2008, in the amount of \$175,000, is in process.



## CONSULTANT UPDATES

# Upcoming Cases Req. Contracted Experts

- RMP 2007-08 General Rate Case, including a Power Cost Adjustment Mechanism (PCAM)
- QGC 2008 General Rate Case





## CONSULTANT UPDATES

# RMP 2007-08 General Rate Case

- Expertise required in the following areas:
  - Revenue Requirement (RR)
  - Cost of Capital (COC)
  - Cost of Service (COS)
  - Net Power Cost (NPC)
  - Power Cost Adjustment Mechanism (PCAM)
- Staff evaluation of existing contracts/consultants resulted in the following options:
  - Extend and/or amend existing contracts
  - Pursue sole source requests (SSR)
  - Pursue requests for proposals (RFPs)



## CONSULTANT UPDATES

### Contract Extensions

- Larkin & Associate's RR contract to be extended to include the next rate case for an amount of \$110,000.
- Reasons for extension include:
  - High quality of existing and past work
  - Experience and expertise with RMP operations
  - Current involvement in related matters
  - Ability to provide continuity in Committee analysis and positions



## CONSULTANT UPDATES

### Contract Extensions (RMP General Rate Case)

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- Hayet Power Systems Consulting's NPC contract to be extended to include analysis of the next rate case, for \$75,000 - \$85,000.
- Reasons for extension:
  - Same reasons as listed above
  - The recent RFP that resulted in Hayet's contract had no other responders
  - Experience in other states with PacifiCorp jurisdictions



## CONSULTANT UPDATES

# Requests for Proposals (RMP General Rate Case)

- Other areas requiring expertise warranted a fresh look at the market for available contractors.
- Areas requiring requests for proposals (RFPs) include:
  - COC
  - COS
  - PCAM



## CONSULTANT UPDATES

# Questar Gas 2008 General Rate Case

- Expertise required in the following areas:
  - Revenue Requirement (RR)
  - Cost of Service (COS)
- Larkin and Associates' contract to be extended to include analysis of the next rate case, for \$175,000.
- Reasons for extension:
  - Larkin won previous bid for an expected rate case associated with the CET
  - Some of the team was utilized in CET analyses
  - Additional funds necessary to bring on other team members for rate case

## CONSULTANT UPDATES

# Summary of Proposal

- Extend and fund the following contracts:
  - Larkin & Associates (RMP General Rate Case)
  - Hayet Power Systems Consulting (RMP General Rate Case)
  - Larkin & Associates (QGC General Rate Case)
- Issue RFPs for:
  - COC (RMP General Rate Case)
  - COS (RMP General Rate Case)
  - PCAM (RMP General Rate Case)



# Rocky Mountain Power (RMP) Depreciation Case

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Dan Gimble



## DEPRECIATION

# RMP Filings and Recommendations

RMP filed its Depreciation Study and testimonies on August 31, 2007; proposed recommendations include:

- Current composite depreciation rate should be decreased from 2.91% to 2.69% (0.22% decrease).
  - Impact: Annual decrease of \$30.6 million on total company basis and \$10 million for Utah.
- Any ordered change in depreciation rates would be reflected in RMP's next Utah rate case.



## DEPRECIATION

# Key Drivers of Proposed Change

- An increase in the average life span of PacifiCorp's coal generation fleet from 46 years to a proposed 64-year life span
  - Impact: Annual decrease of about \$20 million for Utah
- An increase in negative net salvage value for distribution plant
  - Impact: Annual increase of about \$11.8 million for Utah.

## DEPRECIATION

## Staff's Response to Key Drivers

- Proposed 64-year average life span for coal plants
  - This major policy change requires discussion with, and direction from, the Committee.
- Proposed increase in negative net salvage for distribution plant
  - Proposed increase appears unreasonable and not well supported; staff is working with consultant to develop alternative proposal.



## DEPRECIATION

### Other Notable Changes Proposed

- Double demolition costs for coal plants
- Begin depreciation on capital upgrades to production plant before upgrades are actually made
- Canceled plans to close Deer Creek Mine
- Create a decommissioning reserve for certain small hydro plants
- Treatment of fully depreciated plant between rate cases



## DEPRECIATION

# Staff Response to Other Changes

- Analysis preliminary
- Appears to be relative small dollar impact for each issue (approx \$1 – 2 M for Utah)
- Some involve significant policy shifts that could have larger monetary impacts in the future
- Will determine which issues warrant either support or opposition
- Case is still under development



## DEPRECIATION

# Coal Plant Lives: 64-Year Proposal

## Potential Advantages:

- Matches accounting life with engineering life estimates
- Long-term planning—affords more time for clean coal and renewable technologies to develop
- Provides significant rate decrease to Utah customers in the next rate case

## DEPRECIATION

# Coal Plant Lives: 64-Year Proposal

## Potential Disadvantages:

- Climate change policies may create stranded coal assets, which will cost consumers more in the future than current savings
- Support of the 64-year proposal means less efficient coal plants run longer
- Accuracy and reliability of engineering studies underlying 64-year proposal

## DEPRECIATION

# Discussion of Options

Option #1: Oppose 64-year average life span  
and stick with existing 46-year life span

Option #2: Support a stepwise increase (e.g., 56-  
year life span) until more information is  
available on climate change policies

Option #3: Support the increase to a 64-year  
average life span



## DEPRECIATION

### Next Steps

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- File additional discovery
- Formulate positions and prepare testimony on major aspects of the filing
- File responsive testimony on October 12, 2007





# Climate Change

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Cheryl Murray



## CLIMATE CHANGE

# Today is Part 3 of Series

- Part 1 reviewed overall climate change issue
- Part 2 outlined recent state and regional activities
- Today's Presentation
  - Examines general characteristics of potential climate change programs
  - Describes potential impact on consumers
  - Begins discussion regarding potential policy positions of the Committee



## CLIMATE CHANGE

# Background

- It has been said that climate change legislation will become the most significant regulatory development of our time
- Climate change initiatives are attempts to decrease or limit the amount of greenhouse gas (GHG) released into the atmosphere
- The most effective programs include limits on all sources of emissions:
  - Transportation
  - Electrical Generation
  - Commercial and Industrial
- Our focus will be on electrical generation policies.



## CLIMATE CHANGE

# Electric Generation GHG Policy Options

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- Carbon Cap and Trade
- Carbon Cap
- Carbon Tax
- Renewable Portfolio Standard (RPS)
- Other incentives for certain generation types (renewables and non-emitting forms of generation)

## CLIMATE CHANGE

# Definition of Allowances

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- Both emission cap and cap and trade programs utilize emission allowances.
- Allowances: The right to emit one unit of a GHG or a metric ton of CO<sub>2</sub>, generally distributed by the governing authority for a program.
- May be allocated based on historical emission information, projected emissions, auctioning, or a combination.
- May be allocated and/or restricted on a source or a load basis.

## CLIMATE CHANGE

# Cap and Trade Program Characteristics

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- The total amount of GHG emissions is set to meet a specific environmental target.
- Most cap-and-trade programs allow sources to reduce emissions below the cap in one year and bank the surplus for future years.
- Markets form for utilities with surplus allowances to sell to those in demand.



## CLIMATE CHANGE

# Emissions Caps

- Imposes an absolute limit on GHG emissions that can be released into the atmosphere.
- Limits can be based on tons/year or relative to productivity or economic output.



## CLIMATE CHANGE

# Carbon Tax

- Levies are assessed based on carbon output.
- It is expected that the per ton charge would increase over time.



## CLIMATE CHANGE

# Renewable Portfolio Standard

- Requires that utilities use renewable generation sources to meet a certain percentage of their overall needs.
- Could be framed in terms of targets instead of requirements.
- Elements often include:
  - Increasing percentage requirements over time
  - List of specific qualifying resources
  - “Out” provisions
  - Penalties for non-compliance
  - How RECs (renewable energy credits) can be used
  - Potential delivery or location requirements
- Currently 23 states have some form of RPS requirements
  - PacifiCorp is subject to RPS in CA, OR, and WA

## CLIMATE CHANGE

# Other Incentives for Certain Resources

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- Other incentives include:
  - Favorable tax treatment
  - Access to development fund money, collected either from utility surcharges or general funds
  - Net metering
- Ongoing discussion regarding what qualifies as a non-emitting resource
  - Only renewables?
  - Include conservation?
  - Include nuclear?



## CLIMATE CHANGE

# Current REI Discussion in Utah

- Governor Huntsman directed parties to examine potential elements for a Utah “Renewable Energy Initiative”
- CCS concerns with process
  - Extremely accelerated time frame
  - Insufficient analysis of cost effectiveness
  - Legislative decisions could be made without full understanding of consequences
  - Lack of attention to customer protection
  - If/how will co-ops and munis be included.



## CLIMATE CHANGE

# Potential Policy Impacts on Consumers

- There are potentially significant rate impacts to consumers from climate change policies
  - If carbon tax is applied, or if emissions limits results in need to purchase allowances.
- These impacts could be compounded by sub-optimal resource decisions
  - If RMP doesn't appropriately account for future policy implications in its current resource decisions
- Many consumer interest groups are raising questions whether costs to consumers (including health and environmental) are currently being accurately accounted for.

## CLIMATE CHANGE

# Sample Policy Questions to Consider

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- What criteria should be used when evaluating resource choices?
- Would including externalities in the evaluation lead to a better outcome for consumers?
- Should GHG be considered differently than other environmental factors?
- What criteria should be used in evaluating policy options and participation in policy forums?



## CLIMATE CHANGE

# Current CCS Positions

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- Monitor all policy initiatives and developments
- Remind participants that “utility money” equals ratepayer costs
- Focus on pursuing all cost effective measures before imposing additional requirements.
- Note instances where current guidelines aren’t being followed (e.g. examination of externalities in the current RMP IRP)

## CLIMATE CHANGE

# Implications of CCS Positions

- Currently, very little impact
  - Current IRP had too many flaws for us to consider recommending a specific future plan
  - Current REI and other initiatives are too unfocused and benefit from our simple, consistent message
- Soon, potentially large impact
  - RFP analysis will commence very soon
  - Next IRP could require a more specific policy determination from the Committee
  - Other policy initiatives will start to present specific options for us to evaluate and support or oppose



## CLIMATE CHANGE

# Conclusion

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- Climate change policies have real impact on consumers.
- Policies and issues are developing quickly that will require specific positions from the Committee
- Staff asks the Committee to consider these issues as we will ask for additional guidance in the near future.





# Other Business / Adjourn

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